



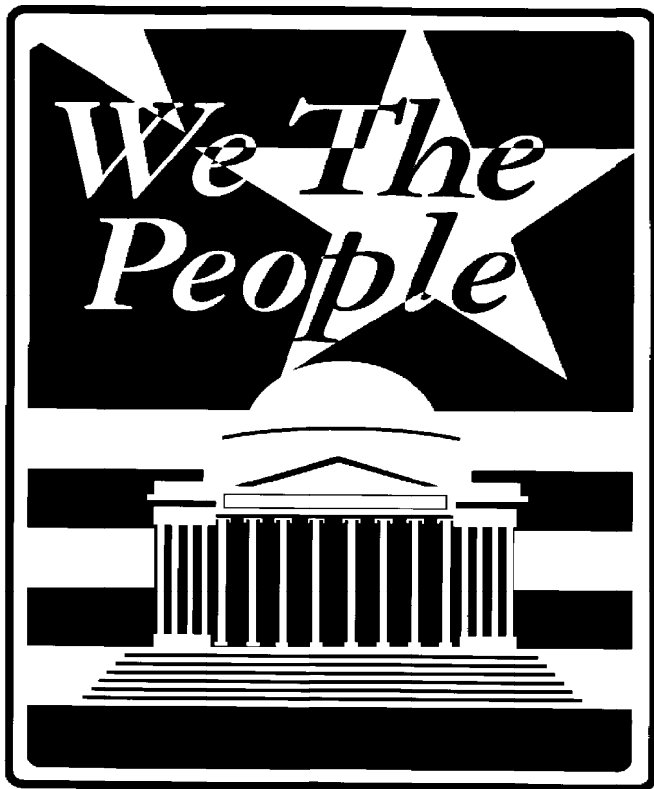
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# Social Security and Other Information for Members of the Clergy and Religious Workers

For use in preparing  
**1994** Returns



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## Important Reminder

**Change of Address.** If you change your mailing address, be sure to notify the Internal Revenue Service using Form 8822, *Change of Address*. Mail it to the Internal Revenue Service Center for your old address (addresses for the Service Centers are on the back of the form). If you are changing both your home and business addresses, complete separate forms.

## Introduction

Social security and Medicare taxes are collected under two systems. Under the Federal Insurance Contributions Act (FICA), part of the taxes is paid by the employee and the other part by the employer. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the taxes. No earnings are subject to both systems.

This publication covers several issues relating to the collection of social security tax from members of the clergy and religious workers, including:

- Which earnings are taxed under FICA and which under SECA,
- How to figure net earnings from self-employment, and
- How a member of the clergy (minister, member of religious order, or Christian Science practitioner) can apply for an exemption from self-employment tax.

The publication also covers certain income tax rules of interest to the clergy.

A comprehensive example with filled-in forms, showing a minister having income that is taxed under FICA and SECA, is at the end of this publication.

**The term “church”** is generally used in its universal sense and not in reference to any particular denomination.

## Useful Items

You may want to see:

### Publication

- ☐ **525** Taxable and Nontaxable Income
- ☐ **529** Miscellaneous Deductions
- ☐ **533** Self-Employment Tax
- ☐ **535** Business Expenses
- ☐ **590** Individual Retirement Arrangements (IRAs)
- ☐ **596** Earned Income Credit

### Form (and Instructions)

- ☐ **SS-8** Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding
- ☐ **SS-16** Certificate of Election of Coverage Under the Federal Insurance Contributions Act
- ☐ **Schedule SE (Form 1040)** Self-Employment Tax
- ☐ **1040-ES** Estimated Tax For Individuals
- ☐ **4029** Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
- ☐ **4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

**Ordering publications and forms.** To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). Or, write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

**Telephone help for hearing-impaired persons.** If you have access to TDD equipment, you can call 1-800-829-4059 with your tax questions or to order forms and publications. See your tax package for the hours of operation.

## Social Security Coverage

The services you perform in the exercise of your ministry are covered by social security under SECA. Therefore, your earnings for these services are subject to self-employment tax unless one of the following apply:

You are a member of a religious order who has taken a vow of poverty.

You request and receive from the IRS an exemption from self-employment tax for the services. See *Exemption From Self-Employment Tax*, later.

You are subject only to the social security laws of a foreign country under the provisions of a social security agreement between the United States and that country. For more information, see

*Binational Social Security (Totalization) Agreements in Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Your earnings that are **not** from the exercise of your ministry may be subject to social security tax under FICA or SECA according to the rules that apply to taxpayers in general. See *Qualified Services*, later.

## Ministers

If you are a duly ordained, commissioned, or licensed minister of a church, your earnings for the services you perform in your capacity as a minister are subject to self-employment tax unless you have requested and received an exemption as discussed under *Exemption From Self-Employment Tax*, later. This is true whether you are an employee of your church or a self-employed person under the common law rules. For the specific services covered, see *Qualified Services*, later.

## Who Are Ministers

Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.

If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.

## Employment Status for Other Tax Purposes

Because of statutory law, you are considered a self-employed individual in performing your ministerial services for social security tax purposes. However, because of common law rules (discussed next), you may be considered an employee for income or retirement plan tax purposes.

**Common law rules.** Under these nonstatutory rules, you are considered an employee or a self-employed person depending on all the facts and circumstances. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action.

**Example.** A church hires and pays you to perform ministerial services for it subject to its control. Under the common law rules, you are an employee of the church while performing those services. Your wages are reported on Form W-2, *Wage and Tax Statement*, for income tax purposes, but no social security taxes are withheld. This is because you are treated as self-employed for social security purposes. You must pay self-employment tax on those wages yourself unless you request

and receive an exemption from self-employment tax. **On your Form W-2, box 3 for social security wages and box 5 for Medicare wages should have been left blank.**

If you are not certain whether you are an employee or a self-employed person, you can get a determination from the IRS by filing Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding*.

## Members of Religious Orders

If you are a member of a religious order who has not taken a vow of poverty, your earnings for required services you performed as a member of the order are subject to self-employment tax. This does not apply if you have requested and received an exemption as discussed under *Exemption From Self-Employment Tax*, later. To see which services are considered required, see *Qualified Services*, later.

**Vow of poverty.** If you are a member of a religious order who has taken a vow of poverty, you are exempt from paying self-employment tax on your earnings for services you perform for your church or its agencies. For income tax purposes, the earnings are tax free to you. Your earnings are considered the income of the religious order.

If you are paid to perform services for an organization other than the church or its agencies, you are considered a regular employee of the organization and your earnings are subject to federal income tax withholding and social security tax. Also, the earnings are taxable to you for income tax purposes.

**Exception.** If you have taken a vow of poverty, the services you perform for your church or its agencies may be covered under social security. Your services are covered if your order, or an autonomous subdivision of the order, elects social security coverage for its current and future vow-of-poverty members.

The order or subdivision elects coverage by filing Form SS-16, *Certificate of Election of Coverage Under the Federal Insurance Contributions Act*. It can elect coverage for certain vow-of-poverty members for a retroactive period of up to 20 calendar quarters before the quarter in which it files the certificate.

**Lay employees.** All lay employees are automatically covered by social security. But see *Election to exclude employees from social security coverage*, later, under *Religious Workers*.

**Rulings.** Organizations and individuals may request rulings from the IRS on whether they are religious orders, or members of a religious order, for FICA tax, self-employment tax, and federal income tax withholding purposes. To request a ruling, follow the procedures in Revenue Procedure 95-1, which is published in the 1995-1 Internal Revenue Bulletin. You can read this Revenue Procedure at most IRS offices or purchase a copy of the Bulletin by writing to: Superintendent of Documents, U.S.

## Christian Science Practitioners and Readers

If you are a Christian Science practitioner, your earnings from services you performed in your profession as a Christian Science reader or practitioner are subject to self-employment tax unless you have requested and received an exemption as discussed under *Exemption From Self-Employment Tax*, later.

**Christian Science practitioners** are members in good standing of the Mother Church, The First Church of Christ Scientist, in Boston, Massachusetts, who practice healing according to the teachings of Christian Science. Christian Science practitioners are specifically exempted from licensing by state laws. Some Christian Science practitioners also are Christian Science teachers or lecturers. Income from teaching or lecturing is considered the same as income from their work as practitioners.

**Christian Science readers** are considered the same as ordained, commissioned, or licensed ministers.

## Religious Workers

If you are a religious worker and are not in one of the classes already discussed, your wages are subject to social security (FICA) withholding and not to self-employment tax.

**Election to exclude employees from social security coverage.** Tax-exempt churches and qualified church-controlled organizations can elect not to have their employees covered by FICA. These employees are covered under SECA and are responsible for paying self-employment taxes on their income.

Trade or business expenses are not subtracted in figuring this self-employment income.

Any employee (except a minister or member of a religious order) who received \$108.28 or more in wages from any one electing church or church-controlled organization must complete Schedule SE (Form 1040), *Self-Employment Tax*.

**Making the election.** To make this election, file two copies of Form 8274, *Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes*. File this after employees are hired, but before the first date on which a quarterly employment tax return is due (or would be due except for this election).

**Revocation.** The church or organization can revoke this election. The revocation cannot be later reversed. Also, the IRS can revoke the election if certain filing requirements for information returns are not met.

**Employees and employers opposed to social security and Medicare participation.** If you and your employer (or, if your employer is a partnership, each partner) are members of a

religious faith, or faiths, opposed to social security participation, you each can apply for exemption from the social security and Medicare taxes imposed on wages. See *Exemption from FICA* later under *Members of Recognized Religious Sects*.

**Employees of churches, etc., who choose not to pay social security taxes.** You may be able to choose to be exempt from social security and Medicare taxes, including the self-employment tax. You can make the choice if you are a member of a religious sect or division opposed to social security and Medicare (see *Members of Recognized Religious Sects*, later) and the church, or church-controlled nonprofit division, for which you work chose, for religious reasons, not to pay the employer's portion of the social security tax on wages. This exemption does not apply to your service, if any, as a minister of a church or as a member of a religious order.

You can make this choice by filing Form 4029. See *Form 4029*, later, under *Members of Recognized Religious Sects*.

## U.S. Citizens, Resident and Nonresident Aliens

To be covered under the self-employment tax provisions (SECA), individuals not living in the United States generally must be citizens or resident aliens of the United States. Nonresident aliens are not covered under SECA.

To determine your alien status, see Publication 519, *U.S. Tax Guide for Aliens*.

**Residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa,** who are not U.S. citizens, are not considered nonresident aliens for self-employment tax purposes. They are covered by social security as discussed later under *Figuring Net Earnings From Self-Employment for Self-Employment Tax*.

## Exemption From Self-Employment Tax

Ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners can request an exemption from self-employment tax. An approved exemption only applies to earnings you receive for qualified services, discussed later. It does not apply to any other self-employment income. For the rules, see *Exemption Request*, next.

Members of religious orders who have taken a vow of poverty are exempt from paying self-employment tax, as discussed earlier. They do not have to request the exemption.

Members of a recognized religious sect or a division of it can also apply for an exemption from the self-employment tax. For the rules that apply to this exemption, see *Members of Recognized Religious Sects*, later.

If you elected before 1968 to be covered under social security for your ministerial services, you are still covered. You cannot be exempt from self-employment tax.

For a limited time, you could have made an election to be covered by social security. You did this by filing Form 2031 for your 1986 or 1987 tax year. If you made this election, you cannot be exempt from self-employment tax.

## Exemption Request

To claim the exemption from self-employment tax, you must meet all of the following conditions:

- 1) File Form 4361, described next,
- 2) Be conscientiously opposed to public insurance because of your individual religious considerations (not because of your general conscience), or be opposed because of the principles of your religious denomination,
- 3) File for other than economic reasons,
- 4) Inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty member),
- 5) Establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization,
- 6) Establish that the organization is a church or a convention or association of churches, and
- 7) Sign and return the statement the IRS mails to you to verify that you are requesting an exemption based on the grounds listed on the statement.

Item (4) does not apply to Christian Science Practitioners.

**Form 4361.** If you did not previously elect to be covered under social security and wish to be exempt from self-employment tax, file Form 4361, *Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners*, in triplicate, to request exemption.

Form 4361 includes a statement certifying that you oppose, for your services as a member of the clergy, public (governmental) insurance for death, disability, old age, or retirement because of your conscience or religious principles. This includes insurance that helps pay for or provide services for medical care, and includes benefits from a system established by the Social Security Act.

The IRS will return to you a copy of the Form 4361 that you filed indicating whether your exemption has been approved. Keep the approved copy in your permanent records.

**When to file.** File Form 4361 by the date your income tax return is due, plus extensions, for the second tax year in which you have at least \$400 in self-employment earnings, any part of which came from your services as a

minister, a member of a religious order, or a Christian Science practitioner. These do not have to be consecutive tax years.

Since it can take some time to receive approval, file Form 4361 as soon as possible.

**Example 1.** Rev. Lawrence Jaeger, a clergyman ordained in 1994, has net earnings of \$450 in 1994 and \$500 in 1995. He has until April 15, 1996, to file his application for exemption. However, if Rev. Jaeger does not receive his exemption by April 17, 1995, his self-employment tax for 1994 is due by that date.

**Example 2.** Rev. Harry Wolfe has \$300 in net earnings as a clergyman in 1994, but earned more than \$400 in both 1993 and 1995. He has until April 15, 1996, to file his application for exemption. However, if he did not receive the exemption by April 15, 1994, he was required to pay his self-employment tax for 1993 by that date.

**Example 3.** In 1992, Rev. David Moss was ordained a minister and had \$700 in net earnings as a minister. In 1993, he received \$1,000 as a minister, but his related expenses were over \$1,000. Therefore, he had no net earnings as a minister in 1993. Also in 1993, he opened a book store and had \$8,000 in net self-employment earnings from the store. In 1994, he had net earnings of \$1,500 as a minister and \$10,000 net self-employment earnings from the store.

Because Rev. Moss had net earnings from self-employment in 1992 and 1994 that were more than \$400 each year, and part of the earnings in each of those years was for his services as a minister, he must file his application for exemption by the due date, plus extensions, for his 1994 income tax return.

**Death of individual.** The right to file an application for exemption ends with an individual's death. A surviving spouse, executor, or administrator cannot file an exemption application for a deceased clergy member.

**Effective date of exemption.** An approved exemption is effective for all tax years after 1967 in which you have \$400 or more of net earnings from self-employment, part of which is for services as a member of the clergy.

**Example.** Rev. Thomas Austin, ordained in 1993, had over \$400 in net earnings as a minister in both 1993 and 1994. He files an application for exemption on February 15, 1995. If an exemption is granted, it is effective for 1993 and the following years.

**Refunds of self-employment tax.** If, after receiving an approved Form 4361, you find that you overpaid self-employment tax, you can file a claim for refund on Form 1040X, *Amended U.S. Individual Income Tax Return*, before the statutory period ends. This is generally within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed, or tax paid, before the due date is considered to have been filed or paid on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund will not be more than the

Table 1. Social Security and Medicare Tax Exemption Application

Who	Member of Clergy	Member of Recognized Religious Sect Who has Self-Employment Income
How	File Form 4361 and, if approved, receive an approved copy	File Form 4029 and, if approved, receive an approved copy
When	File by the due date (plus extensions) of your tax return for the second tax year with at least \$400 of net earnings from self-employment (at least part from qualified services)	File anytime
Effective	For all tax years after 1967 with at least \$400 of net earnings from self-employment	For all tax years after 1950, but not for years beginning before you meet the eligibility requirements

tax you paid within the 2 years immediately before you file the claim.

## Members of Recognized Religious Sects

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from self-employment tax on all of your self-employment income. If you received social security benefits or payments, or anyone else received these benefits or payments based on your wages or self-employment income, you cannot apply. However, if you pay your benefits back, you may be considered for exemption. Contact your local Social Security office to find out the amount to be paid back.

**Eligibility requirements.** To claim this exemption from self-employment tax, **all** the following requirements must be met.

- 1) File Form 4029, discussed next.
- 2) As a follower of the established teachings of the sect or division, you must be conscientiously opposed to accepting benefits of any **private or public** insurance that makes payments for death, disability, old age, retirement, or medical care, or provides services for medical care.
- 3) You must waive all rights to receive any social security payment or benefit and agree that no benefits or payments will be made to anyone else based on your wages and self-employment income.
- 4) The Secretary of Health and Human Services must determine that:
  - a) Your sect or division has such established teachings,
  - b) It is the practice, and has been for a substantial period of time, for members of the sect or division to provide for their dependent members in a manner that is reasonable in view of the members' general level of living, and
  - c) The sect or division has existed at all times since December 31, 1950.

If you have previously received approval for exemption from self-employment tax, you are considered to have met the requirements and do not need to apply for this exemption.

**Form 4029.** To request the exemption, file Form 4029, *Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits*, in triplicate, with the Social Security Administration at the address shown on the form. The sect or division must complete part of the form.

The IRS will return to you a copy of the Form 4029 that you filed indicating whether your exemption has been approved. Keep the approved copy in your permanent records.

**When to file.** You can file Form 4029 at any time.

**Effective date of exemption.** An approved exemption generally is effective for all tax years beginning after 1950. It does not apply to any tax year beginning before you meet the eligibility requirements discussed earlier.

The exemption will end if you fail to meet the requirements or the Secretary of Health and Human Services determines that the sect or division fails to meet them. You must notify the IRS within 60 days of any occurrence that results in your no longer being a member of the religious group, or in your no longer following the established teachings of this group. The exemption will end effective with the date you notify the IRS.

**Refunds of self-employment tax paid.** For information on requesting refunds, see the discussion under *Exemption Request*, earlier.

**Exemption from FICA.** Generally, under FICA, part of the social security and Medicare tax is paid by the employee and the other part is paid by the employer. If you meet the requirements discussed earlier in this section, you can apply to be exempt from your share of FICA taxes paid by your employer whose exemption has been approved.

**Information for employers.** If you are an employer who files and receives an approval for this exemption, do not report social security and Medicare wages of employees who also

file and receive an approval for this exemption. A partnership in which each partner holds a religious exemption from social security and Medicare is an employer for this purpose.

Do not include these exempt wages on Form 941, *Employer's Quarterly Federal Tax Return*, or on Form 943, *Employer's Annual Tax Return for Agricultural Employees*. If you have received an approved Form 4029, write "Form 4029" on Form 941 on the line for "Taxable social security wages," "Taxable social security tips," and "Taxable Medicare wages and tips," to the left of the wage entry spaces. If you have received an approved Form 4029, and you are a Form 943 filer, write "Form 4029" on the line for "Total wages subject to social security taxes," and "Total wages subject to Medicare taxes," to the left of the wage entry spaces. When preparing a Form W-2 for a qualifying employee, write "Form 4029" in the box marked "Other."

If you have employees who do not have an approved Form 4029, you must withhold the employee share of social security and Medicare taxes and pay the employer's share.

For more information on employers of the clergy and religious workers, see Publication 937, *Employment Taxes*.

**Effective date.** An approved exemption from FICA becomes effective on the first day of the first calendar quarter after the quarter in which Form 4029 is filed. The exemption will end in the calendar quarter before the quarter in which the employer, employee, sect, or division fails to meet the requirements.

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## Qualified Services

The exemption from self-employment tax applies only to the services performed in the exercise of your ministry or in the exercise of your duties as required by your religious order. The exemption does not apply to any other self-employment income. If you do not have an exemption, amounts you receive for performing qualified services are subject to self-employment tax.

## Ministers

Most services you perform as a minister, priest, rabbi, etc., are qualified services. These services include:

- 1) Performing sacerdotal functions,
- 2) Conducting religious worship, and
- 3) Controlling, conducting, and maintaining religious organizations, boards, societies, and other integral agencies that are under the authority of a religious body that is a church or denomination.

You are considered to control, conduct, or maintain a religious organization if you direct, manage, or promote the organization's activities. A religious organization is under the authority of a religious body that is a church or denomination if it is organized for and dedicated to carrying out the principles of a faith

according to the requirements governing the creation of institutions of the faith.

**Services for nonreligious organizations.** Your services for a nonreligious organization are qualified services if the services are assigned or designated by your church. Assigned or designated services qualify even if they do not involve performing sacerdotal functions or conducting religious worship.

Ordinarily, your services are not considered assigned or designated by your church if you are in any of the following categories:

- 1) You perform services for an organization that did not arrange with your church to receive them.
- 2) You perform the same services for an organization that other undesignated employees perform.
- 3) You perform the same services before and after the designation.

If your services are not assigned or designated by your church, they are qualified services only if they involve performing sacerdotal functions or conducting religious worship.

**Services that are not part of your ministry.** Income from services that are not qualified services is generally subject to FICA (and not SECA) taxes under the rules that apply to workers in general. The following are not qualified services.

- 1) Services that you perform for nonreligious organizations other than the services stated earlier.
- 2) Services that you perform as a duly ordained, commissioned, or licensed minister of a church as an employee of the United States, the District of Columbia, a foreign government, or any of their political subdivisions. This is true even if you are performing sacerdotal functions or conducting religious worship. (For example, if you perform services as a chaplain in the Armed Forces of the United States, the services are not qualified services.)
- 3) Services that you perform in a government-owned and operated hospital (services are considered performed by a government employee, not by a minister as part of the ministry). However, services that you perform at a church-related hospital or health and welfare institution are considered to be part of the ministry.

**Books or articles.** Writing religious books or articles is considered to be in the exercise of your ministry. Royalty income from the sale of books or articles is self-employment income.

## Members of Religious Orders

Services you perform as a member of a religious order in the exercise of duties required by the order are qualified services. The services are qualified because you perform them as an agent of the order.

For example, if you are directed to perform services for another agency of the supervising church or an associated institution, you are considered to perform the services as an agent of the order.

However, if you are directed to work outside the order, the employment will not be considered a duty required by the order unless:

Your services are the kind that are ordinarily performed by members of the order, and

Your services are part of the duties that must be exercised for, or on behalf of, the religious order as its agent.

Ordinarily, services are not considered directed or required of you by the order if you and the party for whom you work are considered employee and employer. In this case, your earnings from the services are taxed under the rules that apply to workers in general, not under SECA. This is true even if you have taken a vow of poverty.

**Example.** Mark Brown and Elizabeth Green are members of a religious order and have taken vows of poverty. They renounce all claims to their earnings. The earnings belong to the order.

Mark is a licensed attorney. The superiors of the order instructed him to get a job with a law firm. Mark joined a law firm as an employee and, as he requested, the firm made the salary payments directly to the order.

Elizabeth is a secretary. The superiors of the order instructed her to accept a job with the business office of the church that supervises the order. Elizabeth took the job and gave all her earnings to the order.

Mark's services are not duties required by the order. His earnings are subject to social security tax under FICA and Federal income tax.

Elizabeth's services are considered duties required by the order. She is acting as an agent of the order and not as an employee of a third party. She does not include the earnings in gross income, and they are not subject to income tax withholding, social security tax, or self-employment tax.

## Christian Science Practitioners and Readers

The exemption from self-employment tax, discussed earlier, applies only to the services a Christian Science practitioner or reader performs in the exercise of that profession.

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## Figuring Net Earnings From Self-Employment Tax

Generally, your net earnings from self-employment are your gross income from your trade or business minus allowable business deductions.

For the self-employment tax, your net earnings from self-employment include your gross income from qualified services (see *Qualified Services*, earlier) minus the deductions related to that income. If you have an approved exemption or you are automatically exempt, do **not** include the income or deductions from qualified services in figuring your net earnings from self-employment.

For more information on net earnings from self-employment, see Publication 533, *Self-Employment Tax*.

**Gross income.** To figure your net earnings from self-employment (on Schedule SE (Form 1040)), include in gross income:

Salaries and fees for your qualified services,

Offerings you receive for marriages, baptisms, funerals, masses, etc.,

The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience (exclude these amounts from gross income for income tax purposes), and

The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you.

If a church pays any amount toward your income tax or self-employment tax, other than withholding the amount from your salary, it is income to you. You must include the amount in your gross income and self-employment income.

**Example.** Pastor Roger Adams receives an annual salary of \$16,500 as a full-time minister. \$1,500 of the salary is designated as a rental allowance to pay utilities. His church owns a parsonage that has a fair rental value of \$5,200 per year. Pastor Adams is given the use of the parsonage. He is not exempt from self-employment tax. He must include \$21,700, his salary plus the rental allowance for utilities and the fair rental value of the parsonage, to figure his net earnings for self-employment tax purposes.

The results would be the same if, instead of the use of the parsonage and receipt of the rental allowance for utilities, Pastor Adams had received an annual salary of \$21,700 of which \$6,700 per year was designated as a rental allowance.

For the income tax treatment of such amounts, see *Exclusion of rental allowance and fair rental value of a parsonage under Income Tax Treatment of Certain Items*, later.

**Overseas duty.** Your net earnings from self-employment are determined without any foreign earned income exclusion or the foreign housing exclusion or deduction if you are a U.S. citizen or resident alien who is serving abroad and living in a foreign country.

**Example.** Paul Jones was the minister of a U.S. church in Mexico. He earned \$22,000 and

was able to exclude it all for income tax purposes under the foreign earned income exclusion. Mr. Jones would, however, compute self-employment tax on \$22,000.

For information on excluding foreign earned income or the foreign housing amount, get Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

**Specified U.S. possessions.** The exclusion from gross income for amounts derived in Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands does not apply in computing net earnings from self-employment.

**Amounts not included in gross income.** Do not include in gross income for figuring net earnings from self-employment:

Offerings that others made to the church,

Contributions by your church to an annuity plan set up for you, including any salary reduction, that are not included in your gross income, and

Pension payments or retirement allowances you receive for your past qualified services.

**Allowable deductions.** To determine your net earnings from self-employment (on Schedule SE (Form 1040)), deduct all your nonemployee ministerial expenses. Also, deduct all your unreimbursed trade or business expenses that you incur in performing ministerial services as a common law employee of the church. For the rules concerning the treatment of reimbursements and advances, see *Reimbursement arrangements*, later. However, you generally can only deduct 50% of meal and entertainment expenses.

When figuring your self-employment tax, you can deduct 7.65% of your net profit. Your net profit consists of your gross income from self-employment minus your allowable deductions except the deduction for self-employment tax. You figure your self-employment tax deduction on line 4 of Schedule SE (Form 1040) by multiplying your net profit by .9235. This deduction is allowed only in figuring self-employment tax, not income tax. See *Deduction for self-employment tax under Income Tax Treatment of Certain Items*, later, for a discussion of the income tax deduction.

**Reimbursement arrangements.** If you received an advance, allowance, or reimbursement for your expenses, how you treat your reimbursed business expenses depends on the type of reimbursement arrangement. There are two basic types of reimbursement arrangements—accountable plans and nonaccountable plans. If you are not sure if you are reimbursed from an accountable plan or a nonaccountable plan, ask your employer.

**Accountable plans.** You must be an employee to be in an accountable plan. To be an accountable plan, your employer's reimbursement arrangement must require you to meet **all** three of the following rules:

- 1) Your expenses must have a business connection—that is, you must have paid or incurred deductible expenses while

performing services as an employee of the employer with the plan,

- 2) You must adequately account to your employer for these expenses within a reasonable period of time, and
- 3) You must return any excess reimbursement or allowance within a reasonable period of time.

If your expenses equal your reimbursement, you have no deduction because they are equal and the reimbursement is not reported on your Form W-2. If your expenses are more than your reimbursement, you can deduct your excess expenses for self-employment tax and income tax purposes.

**Nonaccountable plan.** A nonaccountable plan is a reimbursement arrangement under which you do not meet all three rules listed above under *Accountable plans*. In addition, the following payments made under an accountable plan will be treated as being paid under a nonaccountable plan:

- 1) Excess reimbursements you fail to return to your employer, and
- 2) Reimbursement of nondeductible expenses related to your employer's business.

Your employer will combine any reimbursement paid to you under a nonaccountable plan with your wages, salary, or other compensation. Your employer will report the total on your Form W-2. You can deduct your expenses (for self-employment tax and income tax purposes) regardless of whether they are more than, less than, or equal to your reimbursement.

For more information on accountable and nonaccountable plans get Publication 463, *Travel, Entertainment, and Gift Expenses*.

## Husband and Wife Missionary Team

If a husband and wife are both duly ordained, commissioned, or licensed ministers of a church and have an agreement that each will perform specific services for which they are paid jointly or separately, they must divide the self-employment income according to the agreement.

**If the agreement is with one spouse only** and the other spouse is not paid for any specific duties, amounts received for their services are included in only the self-employment income of the spouse having the agreement. If they already have filed a return and incorrectly divided the income for self-employment tax purposes, they should file an amended return showing the entire amount as self-employment income of that spouse.

**A minister-missionary's spouse who is not duly ordained,** commissioned, or licensed as a minister of a church may file a claim for refund of any self-employment tax paid in error for any years for which the statutory period of limitation on refunds has not expired. This period is normally 3 years from the time the return

was filed or 2 years from the time the tax was paid, whichever is later. The spouse's earnings, in this case, should not be included in the minister-missionary's self-employment income. If the minister-missionary's spouse receives pay for performing services for the organization, he or she may be an employee of the organization for social security purposes.

## Maximum Earnings Subject to Self-Employment Tax

For 1994, the maximum net earnings from self-employment subject to social security (old age, survivor, and disability insurance) tax is \$60,600 minus any wages and tips you earned that were subject to social security tax. The tax rate is 12.4%. Net earnings from self-employment subject to the Medicare (hospital insurance) part of the self-employment tax no longer has a maximum. All of your net earnings are subject to the Medicare portion of the self-employment tax. The tax rate is 2.9%.

## Optional Methods for Figuring Net Earnings from Self-Employment

You may be able to use an optional method for figuring your net earnings from nonfarm self-employment. If you are in the farming business, you may be able to use the farm optional method. If you are in farm and nonfarm businesses, you may qualify for both options. In general, the optional methods for figuring net earnings from self-employment are intended to permit continued coverage for social security and Medicare purposes when your income for the tax year is low. For more information on the farm optional method, see Publication 533, *Self-Employment Tax*.

**Nonfarm optional method.** You may use the nonfarm optional method for nonfarm self-employment income if you meet all the following tests:

Your net nonfarm profits are less than \$1,733.

Your net nonfarm profits are less than 72.189% of your total gross income from nonfarm self-employment.

You are self-employed or a partner on a regular basis. This means that your actual net earnings from self-employment are \$400 or more in at least 2 of the 3 tax years before the one for which you use this method.

You have not previously used this method more than 4 years (there is a 5-year lifetime limit). The years do not have to be consecutive.

If you meet these four tests, you may report the smaller of two-thirds of the gross income from your nonfarm business, or \$1,600 as your net earnings from self-employment. But you may not report less than your actual net earnings for nonfarm self-employment.

## Income Tax Treatment of Certain Items

Some items are treated differently for income tax purposes than for self-employment tax purposes.

**Exclusion of rental allowance and fair rental value of a parsonage.** If you receive in your pay an amount officially designated as a rental allowance, you can exclude the allowance from your gross income if:

The amount is used to provide or rent a home, and

The amount is not more than reasonable pay for your services.

The term "rental allowance" includes an amount to pay utility costs.

You can exclude from gross income **the fair rental value** of a house or parsonage, including utilities, furnished to you as part of your pay. However, the exclusion cannot be more than the reasonable pay for your services. If you pay for the utilities, you can exclude any allowance designated for utility costs, up to your actual cost.

This exclusion applies only for income tax purposes. It does not apply for self-employment tax purposes, as discussed earlier under *Figuring Net Earnings From Self-Employment for Self-Employment Tax*.

This exclusion applies to ordained, commissioned, or licensed ministers of the gospel. To exclude, the allowance must be provided as pay for your services, including:

Qualified services, discussed earlier under *Ministers*,

Administrative duties and teaching at theological seminaries, and

The ordinary duties of a minister performed as an employee of the United States (other than as a chaplain in the Armed Forces), a state, possession, political subdivision, or the District of Columbia.

**Example.** Rev. Amos Baker is a full-time minister at the Central Mission Church. The church allows him to use the parsonage that has an annual fair rental value of \$4,800. The church pays him an annual salary of \$13,200, of which \$1,200 is designated for utility costs. His utility costs during the year were \$1,000.

For income tax purposes, Rev. Baker excludes \$5,800 from gross income (the fair rental value of the parsonage plus \$1,000 from the allowance for utility costs). He will report \$12,200 (\$12,000 salary and \$200 of unused utility allowance). His income for self-employment tax, however, is \$18,000 (\$13,200 + \$4,800).

**Home ownership.** If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following:

The amount actually used to provide a home,

The amount officially designated as a rental allowance, or

The fair rental value of the home, including furnishings, utilities, garage, etc.

You must include in gross income any rental allowance to the extent it is more than the smallest of your reasonable compensation, the fair rental value of the home plus utilities, or the amount actually used to provide a home.

You may deduct the home mortgage interest and real estate taxes you pay on your home even though all or part of the mortgage is paid with funds you get through a tax-free rental or parsonage allowance.

**Retired ministers.** If you are a retired minister, you may exclude from your gross income the rental value of a residence (plus utilities) furnished to you by your church as a part of your compensation for past services, or the portion of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.

The retirement allowances you receive as a retired minister are not earnings from self-employment for self-employment tax purposes.

**Theological students.** If you are a theological student serving a required internship as a part-time or assistant pastor, you cannot exclude a parsonage or rental allowance from your income unless you are ordained, commissioned, or licensed as a minister.

**Traveling evangelists.** You can exclude a designated rental allowance from out-of-town churches if you meet all of the following requirements.

You are an ordained minister.

You perform qualified services at the churches located away from your community.

You actually use the rental allowance to maintain your permanent home.

**Jewish cantors.** If you have a bona fide commission and your congregation employs you on a full-time basis to perform substantially all the religious functions of the Jewish faith, you can exclude a rental allowance from your gross income.

**Members of religious orders.** Your pay may be tax free if you are a member of a religious order who:

Has taken a vow of poverty,

Receives pay for services, and

Renounces the pay and gives it to the order.

If the above applies and you are performing the services as an agent of the order in the exercise of duties required by the order, your pay is tax free.

**Ministerial trade or business expenses as an employee.** When you figure your income tax, you must itemize your deductions on

Schedule A (Form 1040) to claim allowable deductions (see *Allowable deductions* under *Figuring Net Earnings From Self-Employment for Self-Employment Tax*, earlier) for ministerial trade or business expenses incurred while working as an employee. You may also have to file Form 2106, *Employee Business Expenses* (or Form 2106-EZ). These expenses are claimed as miscellaneous itemized deductions and are subject to the 2% of adjusted gross income floor. Additionally, these expenses may have to be reduced by the amount that is allocable to tax-free income (see *Expenses allocable to tax-free income*, next) before being limited by the floor. See Publication 529, *Miscellaneous Deductions*, for more information on the floor.

**Expenses allocable to tax-free income.** If you receive a rental or parsonage allowance that is tax free, you must allocate the expenses of operating your ministry. You **cannot** deduct expenses that are allocable to your tax-free rental or parsonage allowance. This rule does not apply to your deductions for home mortgage interest or real estate taxes.

Figure the portion of your otherwise deductible expenses that will be disallowed as a result of the allocation of expenses to tax-free income by multiplying by a fraction. The fraction's numerator is the tax-free rental or parsonage allowance. The denominator is all income (both taxable and tax-free) earned from your ministry. The income and deductions relative to your ministry include amounts related to ministerial duties you perform both as an employee and as a self-employed person. Reduce these expenses only in figuring your income tax, not your self-employment tax.

**Required statement.** If you receive a tax-free rental or parsonage allowance and have ministerial expenses, attach a statement to your tax return. The statement must contain all of the following information:

- 1) A list of each item of taxable ministerial income by source (such as wages, salary, weddings, baptisms, etc.) plus the amount,
- 2) A list of each item of tax-free ministerial income by source (parsonage allowance) plus the amount,
- 3) A list of each item of otherwise deductible ministerial expense plus the amount,
- 4) How you figured the nondeductible part of your otherwise deductible expenses, and
- 5) A statement that the other deductions claimed in your tax return are not allocable to your tax-free income.

See the statement prepared for the *Comprehensive Example*, later.

**Example.** Rev. Charles Ashford received \$40,000 in ministerial earnings consisting of: a \$28,000 salary for ministerial services; a total of \$2,000 for weddings and baptisms; and a \$10,000 tax-free housing allowance. He incurred \$4,000 of unreimbursed expenses connected with his ministerial earnings. \$3,500 of the \$4,000 is related to his ministerial salary,

and \$500 is related to his wedding and baptism income. He figures the unallowable part of his expenses as follows:

$\$10,000 \div \$40,000 = 25\%$ ;

$\$3,500 \times 25\% = \$875$ ;

$\$500 \times 25\% = \$125$ .

\$875 of the \$3,500 salary-related expenses is not deductible, and \$125 of the \$500 self-employment-related expenses is not deductible.

#### Health insurance costs of self-employed ministers.

**Caution.** This provision expired December 31, 1993. However, as this publication was being prepared for print, Congress was considering legislation to extend the provision. For information on late legislative changes, see Publication 553, *Highlights of 1994 Tax Changes*.

If you are self-employed, you may be able to deduct 25% of the amount you pay for medical insurance coverage for yourself and your family. You take the deduction as an adjustment to income on Form 1040. You may take this deduction even if you do not itemize deductions on Schedule A (Form 1040). However, your deduction cannot exceed your net earnings from the business under which the insurance plan is established. Also, the amount you deduct does not reduce your income for self-employment tax purposes. The expenses taken into account for purposes of this deduction must be reduced by the allowable amount of any supplementary health insurance credit.

As a common-law employee (discussed earlier) of the church, you are not considered to be a self-employed individual with respect to income from that employment. Do not include that income when determining if your deduction exceeds your net earnings.

You **cannot** take the deduction if you (or your spouse) are also an employee and can participate in a subsidized plan of your (or your spouse's) employer. You apply this deduction limitation on a monthly basis. For more information, see Publication 535, *Business Expenses*.

**Living abroad.** Certain income may be exempt from income tax if you work in a foreign country or in a specified U.S. possession. Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, discusses the foreign earned income exclusion. Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*, covers the rules for taxpayers in U.S. possessions. You may get these free publications from the Internal Revenue Service or from most U.S. Embassies or consulates.

#### Income tax withholding and estimated tax.

If you are a duly ordained, commissioned, or licensed minister, a member of a religious order (who has not taken a vow of poverty), or a Christian Science practitioner, and you perform qualified services, your salary is subject to income tax. However, it is generally not subject to federal income tax withholding. If your

salary is not subject to withholding, you should make estimated tax payments to avoid penalties for not paying tax as you earn your income. For more information, see *Payment of Estimated Tax*, later. If you perform your services as an employee of the church (under the common law rules), you may be able to have a voluntary withholding agreement with your employer, the church, to cover any income and self-employment tax that may be due.

**Deduction for self-employment tax.** You can deduct one-half of your self-employment tax as a business expense in figuring adjusted gross income. This is an income tax deduction only, and you deduct it on line 25 of Form 1040. It is not a deduction in figuring net earnings from self-employment subject to self-employment tax.

## Filing Your Return

You must file an income tax return on Form 1040 if:

You are not exempt from self-employment tax, and you have net earnings from self-employment (discussed earlier under *Figuring Net Earnings From Self-Employment for Self-Employment Tax*) of \$400 or more in the tax year,

You are exempt from self-employment tax on earnings from qualified services and you have \$400 or more of other earnings subject to self-employment tax, or

You had wages of \$108.28 or more from an electing church or church-controlled organization (discussed earlier under *Religious Workers*).

For more information on filing your return, including when and where to file it, see the instructions for Form 1040.

## Payment of Estimated Tax

Estimated tax is the method used to pay income and self-employment taxes (and other taxes you report on Form 1040 for income that is not subject to withholding, or for income from which not enough tax is withheld). Your estimated tax is your expected tax for the year minus your expected withholding and credits.

Generally, you must make estimated tax payments if your estimated tax for the year will be \$500 or more.

Determine your estimated tax by using the worksheet in Form 1040-ES, *Estimated Tax for Individuals*. Then, using the Form 1040-ES payment-voucher, pay the entire estimated tax or the first installment by April 17, 1995. The April 17th date applies whether or not your tax home and your abode are outside the United States and Puerto Rico.

For more information get Publication 505, *Tax Withholding and Estimated Tax*.



## Retirement Savings Arrangements

### Retirement plans for the self-employed.

Ministers, members of religious orders, and Christian Science practitioners and readers treat their pay for qualified services as self-employment earnings for social security and Medicare taxes. To set up a qualified retirement plan (such as a Keogh (H.R. 10) plan or a simplified employee pension (SEP) plan), you must be self-employed. The common law rules determine whether you are an employee or a self-employed person for setting up a Keogh or a SEP plan. See *Employment Status for Other Tax Purposes*, earlier.

For example, if a congregation pays a minister a salary for performing qualified services, and the minister is subject to the congregation's control, the minister is a common-law employee. The minister is not a self-employed person even though for social security and Medicare purposes his or her pay is counted when figuring net earnings from self-employment. On the other hand, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are earnings from self-employment for all tax purposes.

For more information on establishing a Keogh or a SEP plan, get Publication 560, *Retirement Plans for the Self-Employed*.

### Individual retirement arrangements (IRAs).

You generally are allowed to make contributions to your IRA of up to \$2,000 or the amount of your compensation, whichever is less. These contributions may be fully or partly deductible, or nondeductible, if you or your spouse is covered by an employer retirement plan (including a Keogh or SEP plan). If you are covered (or considered covered), your deduction is affected by your income and your filing status.

For more information on IRAs, get Publication 590, *Individual Retirement Arrangements (IRAs)*.

## Earned Income Credit

If you qualify for it, the earned income credit reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Also, you may be able to get part of the credit added to your pay. Depending on your situation, the credit can be as high as \$2,528.

You cannot take the credit if your earned income (or adjusted gross income, if greater) is more than:

- \$9,000 if you do not have a qualifying child,
- \$23,755 if you have one qualifying child, or
- \$25,296 if you have more than one qualifying child.

**Earned Income.** Earned income includes your:

Wages, salaries, tips, and other compensation, and

Net earnings from self-employment minus the amount you claimed (or should

have claimed) on Form 1040, line 25, for one-half of your self-employment tax.

### **Earned income for a minister whose earnings from qualified services are exempt from SECA.**

If you are exempt from SECA (have an approved Form 4361), amounts you received for performing ministerial duties as an employee are earned income. This includes wages, salaries, tips, and other employee compensation. It also includes compensation that is not taxed like the housing and utility allowance received as part of your pay for services as an employee. In figuring your earned income, you cannot deduct your unreimbursed trade or business expenses that you incurred in performing ministerial services as a common law employee of a church.

Amounts you received for nonemployee ministerial duties are not earned income. This includes fees for performing marriages, baptisms, and honoraria for delivering speeches.

If you had nonministerial duties, any net earnings from self-employment, minus one-half of your self-employment tax, or any compensation received as an employee is earned income.

### **Earned income for a minister whose income from qualified services is not exempt from SECA.**

Earned income includes your net earnings from self-employment plus any compensation you received for nonministerial duties minus your Form 1040, line 25 amount for one-half of self-employment tax. Your net earnings from self-employment includes those net earnings from qualified services. See *Figuring Net Earnings From Self-Employment for Self-Employment Tax*, earlier. Net earnings also includes net earnings from self-employment related to nonministerial duties.

**Information.** For the detailed rules on this credit, get Publication 596, *Earned Income Credit*. You may need to complete Schedule EIC and attach it to Form 1040 or 1040A if you have a qualifying child. You may be able to use Form 1040EZ if you do not have a qualifying child. To figure the amount of your credit, you will have to fill out a worksheet or have the IRS compute the credit for you. For details on getting part of the credit added to your pay, get Form W-5 from your employer or by calling the IRS at 1-800-TAX-FORM (1-800-829-3676).

## Comprehensive Example

Rev. John Michaels is the minister of the First United Church. He is married and has one child. He is a common-law employee of the church. He has not applied for an exemption from self-employment tax. The church paid him a salary of \$31,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria.

In an earlier year, Rev. Michaels bought a home next to the church. He makes an \$800

per month mortgage payment of principal and interest only. The church paid him \$800 per month as his parsonage allowance (excluding utilities). The home's fair rental value is \$900 per month. The utility bills for the year totaled \$960. The church paid him \$100 per month designated as an allowance for utility costs.

The church did not withhold social security, Medicare, or federal income taxes because Rev. Michaels had not requested it. The church reports his salary for income tax purposes on Form W-2, box 1, leaving blank the boxes for social security and Medicare wages. Box 1 of the Form W-2 shows his wages of \$31,000. He made estimated tax payments during the year totaling \$8,400.

Rev. Michaels taught a course at a local community college. He was paid \$3,400, which was reported on a Form W-2. The federal income tax withheld was \$272. As an employee of the college, he was subject to social security and Medicare withholding. His Form W-2 shows \$210.80 withheld for social security taxes and \$49.30 withheld for Medicare taxes.

**Form 1040.** On Form 1040, Rev. Michaels reports \$34,400 (\$31,000 from the church and \$3,400 from the college) on line 7 and \$240 (the excess of the utility allowance over the utility costs) on line 21. (The parsonage allowance is **not** taxable for income tax purposes.)

**Schedule C-EZ (Form 1040).** On Schedule C-EZ, Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria. His related expenses for the year were \$87 for marriage and family booklets and \$156 for 538 miles of business use of his car figured at the standard mileage rate of 29¢ a mile (mainly for trips in connection with honoraria). He cannot deduct the part of his expenses allocable to his tax-free income. He attaches the required statement (example shown later) to his tax return that explains how he figures the nondeductible part (\$56). He subtracts the \$56 from the \$243 and enters the \$187 difference on line 2 of Schedule C-EZ. He reports his net profit of \$3,813 on line 12 of Form 1040.

**Schedule SE (Form 1040).** On Schedule SE, Rev. Michaels **includes the \$800 per month parsonage allowance** (\$9,600), the entire \$100 per month utility allowance (\$1,200), his salary from the church (\$31,000), and the net income from Schedule C-EZ (\$3,813). He subtracts from this the \$56 of nondeductible Schedule C-EZ expenses and the \$1,103 (\$884 + \$219) of allowable employee business expenses (discussed below). He reports his net income of \$44,454 on the short version of Schedule SE. (As a minister, his church salary is not considered "church employee income.")

After completing Schedule SE (Form 1040), Rev. Michaels enters the self-employment tax (\$6,281) on Form 1040, line 47. Also, he enters half of this amount (\$3,141) on Form 1040, line 25.

**Form 2106-EZ.** Rev. Michaels completes lines 7-11b. His car was used 3,048 miles for church business. Using the standard mileage

rate, he figures that his car expense is \$884. He enters the \$884 on line 1. He has \$219 of expenses for publications and booklets that he enters on line 4.

Before entering the total expenses on line 6, he must reduce them by the amount that is allocable to his tax-free parsonage allowance. On the attached required statement (shown later), he shows how he figured the nondeductible part of his expense. The result is \$254

of expenses allocable to the tax-free income. He subtracts \$254 from \$1,103 and enters the result, \$849, on line 6. He then enters the line 6 amount on line 20 of Schedule A (Form 1040).

**Schedule A (Form 1040).** Rev. Michaels contributed \$4,800 in cash during the year to various qualifying charities. He deducts the \$4,800 as an itemized deduction on line 15. He

deducts \$1,750 in real estate taxes on line 6 and \$6,810 of home mortgage interest on line 10. He limits his employee business expenses to the amount exceeding 2% of his adjusted gross income. He enters \$143 as the total of his miscellaneous deductions on line 26. The total of all itemized deductions is \$13,503, which he enters on line 29 of Schedule A and on line 34 of Form 1040.

a Control number		OMB No. 1545-0008					
b Employer's identification number 00-0246810		1 Wages, tips, other compensation 31000.00		2 Federal income tax withheld			
c Employer's name, address, and ZIP code First United Church 1042 Main St. Hometown, Texas 77099		3 Social security wages		4 Social security tax withheld			
		5 Medicare wages and tips		6 Medicare tax withheld			
		7 Social security tips		8 Allocated tips			
d Employee's social security number 011-00-2222		9 Advance EIC payment		10 Dependent care benefits			
e Employee's name, address, and ZIP code John E. Michaels 1040 Main St. Hometown, Texas 77099		11 Nonqualified plans		12 Benefits included in box 1			
		13 See Instrs. for box 13		14 Other Parsonage Allowance - 9600.00 Utilities Allowance - 1200.00			
		15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>		Pension plan <input type="checkbox"/>	
				942 emp. <input type="checkbox"/>		Subtotal <input type="checkbox"/>	
						Deferred compensation <input type="checkbox"/>	
16 State	Employer's state I.D. No.	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax	

Department of the Treasury—Internal Revenue Service

**Form W-2 Wage and Tax Statement 1994**

This information is being furnished to the Internal Revenue Service.

Copy B To Be Filed With Employee's FEDERAL Tax Return

a Control number		OMB No. 1545-0008					
b Employer's identification number 00-1357913		1 Wages, tips, other compensation 3400.00		2 Federal income tax withheld 272.00			
c Employer's name, address, and ZIP code Hometown College 40 Honor Rd. Hometown, Texas 77099		3 Social security wages 3400.00		4 Social security tax withheld 210.80			
		5 Medicare wages and tips 3400.00		6 Medicare tax withheld 49.30			
		7 Social security tips		8 Allocated tips			
d Employee's social security number 011-00-2222		9 Advance EIC payment		10 Dependent care benefits			
e Employee's name, address, and ZIP code John E. Michaels 1040 Main St. Hometown, Texas 77099		11 Nonqualified plans		12 Benefits included in box 1			
		13 See Instrs. for box 13		14 Other			
		15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>		Pension plan <input type="checkbox"/>	
				942 emp. <input type="checkbox"/>		Subtotal <input type="checkbox"/>	
						Deferred compensation <input type="checkbox"/>	
16 State	Employer's state I.D. No.	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax	

Department of the Treasury—Internal Revenue Service

**Form W-2 Wage and Tax Statement 1994**

This information is being furnished to the Internal Revenue Service.

Copy B To Be Filed With Employee's FEDERAL Tax Return

For the year Jan. 1–Dec. 31, 1994, or other tax year beginning

1994, ending

19

OMB No. 1545-0074

## Label

(See instructions on page 12.)

Use the IRS label. Otherwise, please print or type.

Presidential Election Campaign (See page 12.)

LABEL HERE

Your first name and initial

John E.

Last name

Michaels

If a joint return, spouse's first name and initial

Susan R.

Last name

Michaels

Home address (number and street). If you have a P.O. box, see page 12.

1040 Main Street

Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 12.

Hometown, Texas

77099

Your social security number

011 00 2222

Spouse's social security number

001 00 1111

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Yes

No

Note: Checking "Yes" will not change your tax or reduce your refund.

## Filing Status

(See page 12.)

Check only one box.

1

Single

2

Married filing joint return (even if only one had income)

3

Married filing separate return. Enter spouse's social security no. above and full name here. ▶

4

Head of household (with qualifying person). (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

5

Qualifying widow(er) with dependent child (year spouse died ▶ 19 ). (See page 13.)

## Exemptions

(See page 13.)

If more than six dependents, see page 14.

6a

If yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.

b

Spouse

c

Dependents:

(1) Name (first, initial, and last name)

(2) Check if under age 1

(3) If age 1 or older, dependent's social security number

(4) Dependent's relationship to you

(5) No. of months lived in your home in 1994

Robert O. Michaels

111 00 3333

son

12

No. of homes checked on 5a and 5b

2

No. of your children on 5c who:

- lived with you
- didn't live with you due to divorce or separation (see page 14)

1

Dependents on 5c not entered above

Add numbers entered on lines above ▶

3

d

If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶

e

Total number of exemptions claimed

## Income

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see page 15.

Enclose, but do not attach, any payment with your return.

7

Wages, salaries, tips, etc. Attach Form(s) W-2

8a

34,400

8a

Taxable interest income (see page 15). Attach Schedule B if over \$400

b

Tax-exempt interest (see page 16). DON'T include on line 8a

8b

9

Dividend income. Attach Schedule B if over \$400

10

10

Taxable refunds, credits, or offsets of state and local income taxes (see page 16)

11

Alimony received

12

12

Business income or (loss). Attach Schedule C or C-EZ

3,813

13

Capital gain or (loss). If required, attach Schedule D (see page 16)

14

14

Other gains or (losses). Attach Form 4797

15a

Total IRA distributions

15a

b Taxable amount (see page 17)

15b

16a

Total pensions and annuities

16a

b Taxable amount (see page 17)

16b

17

Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E

18

18

Farm income or (loss). Attach Schedule F

19

19

Unemployment compensation (see page 18)

20a

20a

Social security benefits

20a

b Taxable amount (see page 18)

20b

21

Other income. List type and amount—see page 18 Excess Utility Allowance

21

240

22

Add the amounts in the far right column for lines 7 through 21. This is your total income ▶

22

38,453

## Adjustments to Income

Caution: See instructions . . ▶

23a

Your IRA deduction (see page 19)

23a

b

Spouse's IRA deduction (see page 19)

23b

24

Moving expenses. Attach Form 3903 or 3903-F

24

25

One-half of self-employment tax

25

3,141

26

Self-employed health insurance deduction (see page 21)

26

27

Keogh retirement plan and self-employed SEP deduction

27

28

Penalty on early withdrawal of savings

28

29

Alimony paid. Recipient's SSN ▶

29

30

Add lines 23a through 29. These are your total adjustments ▶

30

3,141

## Adjusted Gross Income

31

Subtract line 30 from line 22. This is your adjusted gross income. If less than \$25,296 and a child lived with you (less than \$9,000 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶

31

35,312

**Tax Computation**

(See page 23.)

If you want the IRS to figure your tax, see page 24.

**Credits**

(See page 24.)

**Other Taxes**

(See page 25.)

**Payments**

Attach Forms W-2, W-2G, and 1099-R on the front.

**Refund or Amount You Owe****Sign Here**

Keep a copy of this return for your records.

**Paid Preparer's Use Only**

32	Amount from line 31 (adjusted gross income)	32	35,312
33a	Check if: <input type="checkbox"/> You were 65 or older, <input type="checkbox"/> Blind; <input type="checkbox"/> Spouse was 65 or older, <input type="checkbox"/> Blind. Add the number of boxes checked above and enter the total here. ▶ 33a		
b	If your parent (or someone else) can claim you as a dependent, check here. ▶ 33b		
c	If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 23 and check here. ▶ 33c		
34	Enter the larger of your: Itemized deductions from Schedule A, line 29, OR Standard deduction shown below for your filing status. But if you checked any box on line 33a or b, go to page 23 to find your standard deduction. If you checked box 33c, your standard deduction is zero. • Single—\$3,800 • Head of household—\$5,600 • Married filing jointly or Qualifying widow(er)—\$6,350 • Married filing separately—\$3,175	34	13,503
35	Subtract line 34 from line 32	35	21,809
36	If line 32 is \$83,850 or less, multiply \$2,450 by the total number of exemptions claimed on line 6a. If line 32 is over \$83,850, see the worksheet on page 24 for the amount to enter	36	7,350
37	Taxable income. Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-	37	14,459
38	Tax. Check if from a <input checked="" type="checkbox"/> Tax Table, b <input type="checkbox"/> Tax Rate Schedules, c <input type="checkbox"/> Capital Gain Tax Worksheet, or d <input type="checkbox"/> Form 8815 (see page 24). Amount from Form(s) 8814 ▶ e	38	2,171
39	Additional taxes. Check if from a <input type="checkbox"/> Form 4970 b <input type="checkbox"/> Form 4972	39	
40	Add lines 38 and 39	40	2,171
41	Credit for child and dependent care expenses. Attach Form 2441	41	
42	Credit for the elderly or the disabled. Attach Schedule R	42	
43	Foreign tax credit. Attach Form 1116	43	
44	Other credits (see page 25). Check if from a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8396 c <input type="checkbox"/> Form 8801 d <input type="checkbox"/> Form (specify)	44	
45	Add lines 41 through 44	45	
46	Subtract line 45 from line 40. If line 45 is more than line 40, enter -0-	46	2,171
47	Self-employment tax. Attach Schedule SE	47	6,281
48	Alternative minimum tax. Attach Form 6251	48	
49	Recapture taxes. Check if from a <input type="checkbox"/> Form 4255 b <input type="checkbox"/> Form 8811 c <input type="checkbox"/> Form 8828	49	
50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	50	
51	Tax on qualified retirement plans, including IRAs. If required, attach Form 5329	51	
52	Advance earned income credit payments from Form W-2	52	
53	Add lines 46 through 52. This is your total tax	53	8,452
54	Federal income tax withheld. If any is from Form(s) 1099, check ▶ <input type="checkbox"/>	54	272
55	1994 estimated tax payments and amount applied from 1993 return	55	8,400
56	Earned income credit. If required, attach Schedule EIC (see page 27). Nontaxable earned income: amount ▶ and type ▶	56	
57	Amount paid with Form 4868 (extension request)	57	
58	Excess social security and RRTA tax withheld (see page 32)	58	
59	Other payments. Check if from a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136	59	
60	Add lines 54 through 59. These are your total payments	60	8,672
61	If line 60 is more than line 53, subtract line 53 from line 60. This is the amount you OVERPAID. ▶	61	220
62	Amount of line 61 you want REFUNDED TO YOU. ▶	62	
63	Amount of line 61 you want APPLIED TO YOUR 1995 ESTIMATED TAX ▶	63	220
64	If line 53 is more than line 60, subtract line 60 from line 53. This is the AMOUNT YOU OWE. For details on how to pay, including what to write on your payment, see page 32	64	
65	Estimated tax penalty (see page 33). Also include on line 64	65	

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature <i>John E. Michaels</i>	Date 2/14/95	Your occupation Minister
Spouse's signature. If a joint return, BOTH must sign. <i>Susan R. Michaels</i>	Date 2/14/95	Spouse's occupation Housewife
Preparer's signature _____	Date _____	Check if self-employed <input type="checkbox"/>
Firm's name (or yours if self-employed) and address _____	E.I. No. _____	Preparer's social security no. _____
	ZIP code _____	

**SCHEDULES A&B**  
(Form 1040)

Department of the Treasury  
Internal Revenue Service (7)

**Schedule A—Itemized Deductions**

(Schedule B is on back)

OMB No. 1545-0074

**1994**

Attachment  
Sequence No. 07

▶ Attach to Form 1040. ▶ See instructions for Schedules A and B (Form 1040).

Name(s) shown on Form 1040

John E. and Susan R. Michaels

Your social security number  
011 00 2222

<b>Medical and Dental Expenses</b>	<b>Caution:</b> Do not include expenses reimbursed or paid by others.			
1	Medical and dental expenses (see page A-1)	1		
2	Enter amount from Form 1040, line 32. <u>2</u>	2		
3	Multiply line 2 above by 7.5% (.075)	3		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		
<b>Taxes You Paid</b>	5 State and local income taxes	5		
(See page A-1.)	6 Real estate taxes (see page A-2)	6	<u>1,750</u>	
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ▶	8		
	9 Add lines 5 through 8	9		<u>1,750</u>
<b>Interest You Paid</b>	10 Home mortgage interest and points reported to you on Form 1098	10	<u>6,810</u>	
(See page A-2.)	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11		
	12 Points not reported to you on Form 1098. See page A-3 for special rules.	12		
<b>Note:</b> Personal interest is not deductible.	13 Investment interest. If required, attach Form 4952. (See page A-3.)	13		
	14 Add lines 10 through 13	14		<u>6,810</u>
<b>Gifts to Charity</b>	15 Gifts by cash or check. If any gift of \$250 or more, see page A-3	15	<u>4,800</u>	
If you made a gift and got a benefit for it, see page A-3.	16 Other than by cash or check. If any gift of \$250 or more, see page A-3. If over \$500, you <b>MUST</b> attach Form 8283	16		
	17 Carryover from prior year	17		
	18 Add lines 15 through 17	18		<u>4,800</u>
<b>Casualty and Theft Losses</b>	19 Casualty or theft loss(es). Attach Form 4684. (See page A-4.)	19		
<b>Job Expenses and Most Other Miscellaneous Deductions</b>	20 Unreimbursed employee expenses—job travel, union dues, job education, etc. If required, you <b>MUST</b> attach Form 2106 or 2106-EZ. (See page A-5.) ▶	20	<u>849</u>	
(See page A-5 for expenses to deduct here.)	21 Tax preparation fees	21		
	22 Other expenses—investment, safe deposit box, etc. List type and amount ▶	22		
	23 Add lines 20 through 22	23	<u>849</u>	
	24 Enter amount from Form 1040, line 32. <u>24 35,312</u>	24		
	25 Multiply line 24 above by 2% (.02)	25	<u>706</u>	
	26 Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	26		<u>143</u>
<b>Other Miscellaneous Deductions</b>	27 Moving expenses incurred before 1994. Attach Form 3903 or 3903-F. (See page A-5.)	27		
	28 Other—from list on page A-5. List type and amount ▶	28		
<b>Total Itemized Deductions</b>	29 Is Form 1040, line 32, over \$111,800 (over \$55,900 if married filing separately)? <b>NO.</b> Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter on Form 1040, line 34, the larger of this amount or your standard deduction. <b>YES.</b> Your deduction may be limited. See page A-5 for the amount to enter.	29		<u>13,503</u>

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11330X

Schedule A (Form 1040) 1994

**SCHEDULE C-EZ**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (T)

**Net Profit From Business**

(Sole Proprietorship)

► Partnerships, joint ventures, etc., must file Form 1065.

► Attach to Form 1040 or Form 1041. ► See instructions on back.

OMB No. 1545-0074

**1994**

Attachment  
Sequence No. **09A**

Name of proprietor

John E. Michaels

Social security number (SSN)

011 00 2222

**Part I General Information**

**You May Use  
This Schedule  
Only If You:**

- Had gross receipts from your business of \$25,000 or less.
- Had business expenses of \$2,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

**And You:**

- Had no employees during the year.
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-3 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

**A** Principal business or profession, including product or service

Minister

**B** Enter principal business code

(see page C-6) ► 8771

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN), if any

**E** Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.

1042 Main Street

City, town or post office, state, and ZIP code

Hometown, Texas 77099

**Part II Figure Your Net Profit**

- 1** Gross receipts. If more than \$25,000, you must use Schedule C.  
**Caution:** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see **Statutory Employees** in the instructions for Schedule C, line 1, on page C-2 and check here . . . . . ☐
- 2** Total expenses. If more than \$2,000, you must use Schedule C. See instructions . . . . .
- 3** Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on Form 1040, line 12, and ALSO on Schedule SE, line 2. (Statutory employees do not report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.) . . . . .

1	4,000	
2	187	*
3	3,813	

**Part III Information on Your Vehicle.** Complete this part **ONLY** if you are claiming car or truck expenses on line 2.

- 4** When did you place your vehicle in service for business purposes? (month, day, year) ► 07 / 15 / 92
- 5** Of the total number of miles you drove your vehicle during 1994, enter the number of miles you used your vehicle for:
- a** Business 538 **b** Commuting -0- **c** Other 7,444
- 6** Do you (or your spouse) have another vehicle available for personal use? . . . . . ☒ **Yes** ☐ **No**
- 7** Was your vehicle available for use during off-duty hours? . . . . . ☒ **Yes** ☐ **No**
- 8a** Do you have evidence to support your deduction? . . . . . ☒ **Yes** ☐ **No**
- b** If "Yes," is the evidence written? . . . . . ☒ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 14374D

Schedule C-EZ (Form 1040) 1994

\* See attached statement.

**SCHEDULE SE**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (T)

**Self-Employment Tax**

▶ See Instructions for Schedule SE (Form 1040).

▶ Attach to Form 1040.

OMB No. 1545-0074

**1994**

Attachment  
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040)

John E. Michaels

Social security number of person  
with self-employment income ▶

011 00 2222

**Who Must File Schedule SE**

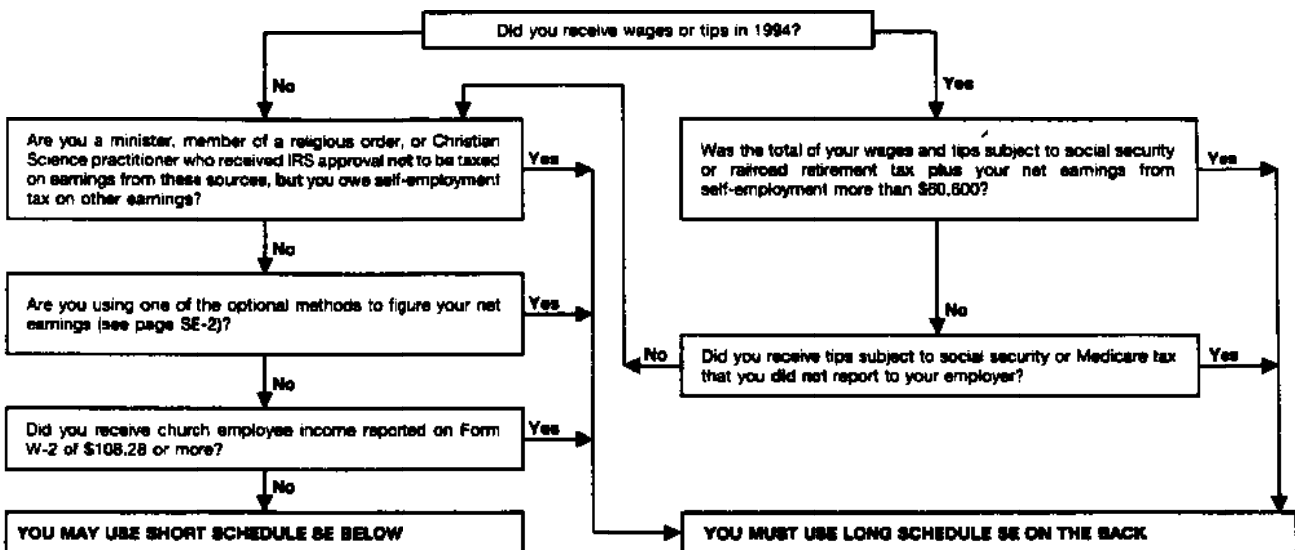
You must file Schedule SE if:

- You had net earnings from self-employment from other than church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more, **OR**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order is **not** church employee income. See page SE-1.

**Note:** Even if you have a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-2.

**Exception.** If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, and you filed Form 4361 and received IRS approval not to be taxed on those earnings, do not file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 47.

**May I Use Short Schedule SE or MUST I Use Long Schedule SE?**



**Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.**

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; and Schedule K-1 (Form 1065), line 15a (other than farming). Ministers and members of religious orders see page SE-1 for amounts to report on this line. See page SE-2 for other income to report.	2	44,454	*
3	Combine lines 1 and 2	3	44,454	
4	Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶	4	41,053	
5	Self-employment tax. If the amount on line 4 is: • \$60,600 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 47. • More than \$60,600, multiply line 4 by 2.9% (.029). Then, add \$7,514.40 to the result. Enter the total here and on Form 1040, line 47.	5	6,281	
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 25	6	3,141	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 113562

Schedule SE (Form 1040) 1994

\*See attached statement.



Your name

**John E. Michaels**

Social security number

**011 00 2222**

Occupation in which expenses were incurred

**Minister****Part I General Information****You May Use This Form ONLY if All of the Following Apply:**

- You are an employee deducting expenses attributable to your job.
- You do not get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense,
  - a You own your vehicle, and
  - b You are using the standard mileage rate for 1994 **AND** also used it for the year you first placed the vehicle in service.

**Part II Figure Your Expenses**

1	Vehicle expense using the standard mileage rate. Complete Part III and multiply line 8a by 29¢ (.29)	1	<b>884</b>	
2	Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel	2		
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3		
4	Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	<b>219</b>	
5	Meals and entertainment expenses: \$ _____ x 50% (.50)	5		
6	<b>Total expenses.</b> Add lines 1 through 5. Enter here and on line 20 of Schedule A (Form 1040). (Qualified performing artists and individuals with disabilities, see the instructions for special rules on where to enter this amount.)	6	<b>849</b>	<b>*</b>

**Part III Information on Your Vehicle.** Complete this part **ONLY** if you are claiming vehicle expense on line 1.

- 7 When did you place your vehicle in service for business purposes? (month, day, year) ▶ **07 / 15 / 93**
- 8 Of the total number of miles you drove your vehicle during 1994, enter the number of miles you used your vehicle for:
- a Business **3048**      b Commuting **- 0 -**      c Other **4952**
- 9 Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No
- 10 Was your vehicle available for use during off-duty hours? ☒ Yes ☐ No
- 11a Do you have evidence to support your deduction? ☒ Yes ☐ No
- b If "Yes," is the evidence written? ☒ Yes ☐ No

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 20604Q

Form **2106-EZ** (1994)**\*See attached statement.**

**IRC Section 265 — Computation of expenses, allocable to tax-free ministerial income, that are nondeductible:**

	TAXABLE	TAX-FREE	TOTAL
Salary as a minister	\$31,000		\$31,000
Parsonage allowance:			
Mortgage (\$800 × 12)		\$ 9,600	9,600
Utilities			
\$100 × 12 = \$1,200			
minus costs      960		960	960
excess <u>\$ 240</u>	240		240
Gross income from weddings, baptisms, and honoraria	<u>4,000</u>		<u>4,000</u>
Ministerial income	<u>\$35,240</u>	<u>\$10,560</u>	<u>\$45,800</u>

Percentage of nondeductible expenses:  $\$10,560 \div \$45,800 = 23\%$

**Schedule C-EZ Deduction Computation**

\$ 87	Marriage and family booklets
+ 156	Business use of car
<u>\$ 243</u>	Unadjusted Schedule C-EZ expenses
× 23%	
<u>\$ 56</u>	Nondeductible part of expenses
 \$ 243	Unadjusted Schedule C-EZ expenses
– 56	Nondeductible part of expenses
<u>\$ 187</u>	Schedule C-EZ deductions (line 2)

**Employee Business Expense Deduction Computation**

\$ 884	Car expenses for church business
+ 219	Publications and booklets
<u>\$ 1,103</u>	Unadjusted employee business expenses (FORM 2106-EZ)
× 23%	
<u>\$ 254</u>	Nondeductible part of expenses
 \$ 1,103	Unadjusted employee business expenses (FORM 2106-EZ)
– 254	Nondeductible part of expenses
<u>\$ 849</u>	Employee business expense deduction — FORM 2106-EZ, line 6

None of the other deductions claimed in the return are allocable to tax-free income.

Attachment to Schedule SE (Form 1040)

Church wages		\$31,000
Parsonage allowance—Mortgage	\$9,600	
Utilities	<u>1,200</u>	10,800
Net operating profit from Schedule C-EZ		<u>3,813</u>
		<u>\$45,613</u>

## Less:

Schedule C-EZ expenses allocable to tax-exempt income	\$ 56	
Ministerial employee business expenses	<u>1,103</u>	<u>1,159</u>
Net Self-Employment Income Schedule SE, Section A, line 2		<u>\$44,454</u>

